



Minutes

October 15, 2024

Twenty-first meeting of the Mexican Foreign Exchange Committee

Mexico City, Tuesday, October 15, 2024

Location: The meeting was held by videoconference at 4:00 p.m., Mexico City time.

Host: Bank of Mexico.

Attendees:

Members

Gerardo Israel García López – President, Bank of Mexico.

José Andrés Jiménez Guerra, Bank of Mexico.

Alejandro Aguilar Ceballos, Operadora de Fondos Banorte, Sociedad Operadora de Fondos de Inversión, Grupo Financiero Banorte.

Alejandro Faesi Puente, Grupo Financiero Banorte, S.A.B. de C.V.

Allan Muñoz Parra, Coca-Cola FEMSA, S.A.B. de C.V.

Eduardo Gómez Macías, Banco Monex, S.A., Institución de Banca Múltiple, Monex Grupo Financiero, S.A. de C.V.

Gilberto Romero Galindo, Banco Ve por Más, S.A., Institución de Banca Múltiple, Grupo Financiero Ve Por Más.

Guillermo Andrés Moreno Arias, Afore Sura, S.A. de C.V.

Juan Badía Alonso, Banco J.P. Morgan, S.A., Institución de Banca Múltiple, J.P. Morgan Grupo Financiero.

Leonardo Franco Villa Reynolds, Afore XXI-Banorte, S.A. de C.V.

Luis Antonio Betancourt Barrios, Banco Santander México, S.A., Institución de Banca Múltiple, Grupo Financiero Santander México.

Luis Manuel Murillo Peñaloza, Valores Mexicanos Casa de Bolsa, S.A. de C.V.

Manuel Alejandro Meza Piza, BBVA México, S.A., Institución de Banca Múltiple, Grupo Financiero BBVA México.

María del Carmen Bonilla Rodríguez, Ministry of Finance and Public Credit.

Mayte Rico Fernández, HSBC Global Asset Management (México), S.A. de C.V., Sociedad Operadora de Fondos de Inversión.

Pedro Oscar Arroyo Espinoza, Monex Grupo Financiero, S.A. de C.V.

Rafael Buerba Gómez, Santander Asset Management.

Uso Público

Información de acceso público.



Stine Moller-Hansen Secher, Nacional Financiera, S.N.C., Institución de Banca de Desarrollo.

Xavier Ormaechea Jáuregui, Scotiabank Inverlat, S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat.

Guests

María Teresa Muñoz Arámburu, Bank of Mexico.

Pilar María Figueredo Díaz, Bank of Mexico.

Roberto Santiago García Verdú, Bank of Mexico.

Sara Gabriela Castellanos Pascacio, Bank of Mexico.

Ximena Alfarache Morales, Bank of Mexico.

Diego Rafael Toledo Polis, Bank of Mexico.

Luis Murray Arriaga, Bank of Mexico.

Laura Odilia Rojas Barrera, Bank of Mexico.

Mariel Padilla Lujano, Bank of Mexico.

Héctor Kevin Colín Farías, Bank of Mexico.

AGENDA

1. Welcome

The President of the Committee welcomed all the attendees of the twenty-first meeting of the Mexican Foreign Exchange Committee (MFXC).

2. Developments in global and local FX markets

The global and local foreign exchange markets outlook was briefly discussed. Committee members noted the attention of market participants to the monetary cycles of the main central banks, highlighting that said cycles have influenced market dynamics in recent months.

On the other hand, some trends and structural changes observed in foreign exchange markets were mentioned, such as: digitalization and the growing interest in digital currencies and cryptocurrencies, the increase in the use of electronic platforms, and the adoption of algorithms and automated trading strategies.

Finally, recent financial inclusion efforts in Mexico were noted, which have reflected in greater specialization among clients and users of financial information. In particular,

a greater participation of small and medium-sized companies in financial markets was highlighted, including greater interest in foreign exchange hedging strategies.

3. Financial markets' conjuncture

Some relevant global developments that have recently impacted risk sentiment were addressed. In this order, the sensitivity of commodity prices to both the evolution of latent geopolitical conflicts and the recent economic stimulus measures in China was highlighted. Also, it was mentioned that such developments could impact the dynamics of emerging market currencies in the short term, particularly of those currencies considered high-beta and those that belong to economies dependent on the economic dynamism of China.

On the other hand, the recent repricing of market expectations regarding the Federal Reserve's monetary policy path was pointed out, which followed the publication of economic data that continue to reflect the strength of the labor market in the United States of America (USA). Likewise, it was noted that monetary policy expectations within the Latin American region have been adjusted upwards, compared to what was observed at the end of 2023.

Next, the recent dynamics of the Mexican peso were highlighted, as it stands among the worst-performing currencies year-to-date. Accordingly, it was also mentioned that this behavior responds to both local and global factors, including: the electoral results in Mexico and the constitutional reforms pursued in recent months, the uncertainty surrounding the electoral process in the USA, the unwind of carry strategies following foreign exchange and monetary policy developments in Japan, as well as the increase in global geopolitical tensions.

Some members mentioned that their internal models reflect that the Mexican currency is already above its theoretical value, due to the incorporation of a higher risk premium linked to the constitutional reforms being promoted by the new Federal Mexican Administration and to the possible outcome of the elections in the USA.

In this sense, after the depreciation movement and a cleaner positioning in the Mexican peso in recent months, a less-vulnerable technical setup for said currency was noted. Furthermore, the release of the 2025 Mexican Economic Package was mentioned as an additional risk event. The market expects to obtain more clarity about the Mexican Government's actions to be implemented to reduce the deficit from said package.



In addition, other committee members believe that, given the potential impact of both domestic and international risk events, as well as potential structural changes in the Mexican economy, the USD/MXN exchange rate could experience further depreciation for the remainder of the year.

Going forward, the Mexican peso is expected to be more vulnerable than other emerging market currencies to the outcome of the USA election. This is due to the close trade ties between the two countries. As such, it was noted that a victory of the Republican candidate, Donald Trump, with a Republican majority in Congress, is anticipated to be the most negative scenario for both Mexico and China; while a Democratic victory could benefit Mexican assets on the margin.

4. FX Global Code and Global Foreign Exchange Committee (GFXC)

The Mexican Foreign Exchange Committee was informed that during the latest GFXC meeting, held on July 1 and 2, 2024, Gerardo García, the GFXC Chair, shared an update on the Statements of Commitment to the FX Global Code contained in the Global Index of Public Registers, which now totals 1,315 entries. Likewise, the Chair commented that the GFXC is dedicating efforts to the adoption of the Code by buy-side participants. Additionally, he highlighted that the Statement of Commitment of the Central Bank of Costa Rica has been included in the Central Banks Register of the Bank for International Settlements (BIS) and that some countries have expressed interest in becoming members of the GFXC.

Furthermore, the new GFXC website was also presented, hence the GFXC Chair invited members of the Mexican Foreign Exchange Committee to use the Proportionality Self-Assessment Tool to help members' new staff to familiarize with the FX Global Code.

Moreover, it was mentioned that the International Swaps and Derivatives Association (ISDA) is currently reviewing its FX and Currency Option Definitions, expecting the new version to be implemented by the end of 2027. In this regard, Gerardo García stated that Committee members would be kept informed of relevant developments on this topic.

Subsequently, the Chair shared information about the initiatives that the Motivation for Adherence Working Group has been working on, including the Corporate FX Knowledge Hub.



Regarding the Three-Year Review of the Code, it was noted that various factors were considered to define its approach. In particular, the views of local foreign exchange committees (LFXCs), foreign exchange market participants and the BIS Markets Committee were taken into consideration. This time, the GFXC centered its attention on two topics: FX settlement risk and the way FX data are shared.

On this matter, Rafael Buerba, member of the FX Settlement Risk Working Group and representative of Santander Asset Management on the Mexican Foreign Exchange Committee, shared a general overview of the proposed amendments put forward by the group and emphasized the importance of periodically revisiting the Code. More specific details were provided about the three principles of the Code (P35, P50, and P51) that this group intends to modify as part of this review. It was noted that the changes to Principle 35 aim to clarify the methods to eliminate or mitigate settlement risk and the undesirable practices, as well. In relation to Principle 50, it was mentioned that the amendments to the wording focus on how settlement risk should be treated. Lastly, regarding Principle 51, in addition to discouraging the use of multiple settlement instructions, clarifications are made regarding the use of some defined terms. Those clarifications will be complemented with the definitions that the Working Group is proposing to add to the Code's Glossary.

In addition, the proposals from the FX Data Working Group were also discussed. It was reported that this working group has been divided into two workstreams: the first one, focused on the transparency in the FX data generated in electronic trading platforms, through stating policies on sharing Client interaction data with third parties (Principle 9), and the second group concentrated in the necessary disclosures to the client in those cases where a financial entity (acting as a Principal and under a pre-established agreement) initiates a transaction on behalf of the client (Principle 10).

In addition, the working group has proposed to add a new section to the Disclosure Cover Sheets for both platforms and liquidity providers related to their FX data sharing practices.

To conclude this section, members of the Mexican Foreign Exchange Market Committee were encouraged to participate in the Request for Feedback on the proposed amendments to the FX Global Code. For that matter, they were informed of the relevant sections of the GFXC website where they could find the materials related to the Request for Feedback, including the email address where expected feedback will be received before October 25, 2024. Finally, some important dates related to the review of the Code were shared highlighting that the new version of the

Code is expected to be approved during the upcoming GFXC meeting in early December, for its subsequent publication by the end of the year.

5. Mexican Foreign Exchange Committee (MFEC)

It was briefly mentioned that, following the inclusion of a new entity, there are now 91 entities adhered to the FX Global Code of Conduct in Mexico.

6. Bank for International Settlements (BIS) triennial central bank survey of foreign exchange and OTC derivatives markets - 2025

In this regard, the relevance and magnitude of the triennial central bank survey was mentioned. This survey will take place in 2025 and will involve more than 50 local jurisdictions, collecting data from more than 1,200 banking institutions and other financial intermediaries. It was noted that said survey is the most comprehensive source on the size and structure of the global foreign exchange and OTC derivatives markets.

Additionally, information was provided on the results of the 2022 survey, highlighting the most relevant data on both global foreign exchange turnover and the trading activity and structure of the Mexican peso.

7. Any other business

Finally, it was proposed that the next meeting of the Committee be held in March 2025, and it was conveyed that the next meeting is planned to be held in person, either at Bank of Mexico's facilities, or at those of one Committee member.